

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7010

BILL NUMBER: HB 1271

DATE PREPARED: Jan 30, 2002

BILL AMENDED: Jan 29, 2002

SUBJECT: Enterprise Zones.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Enterprise Zone Board:* The bill provides that the president of the Association of Indiana Enterprise Zones or an enterprise zone executive director designated by the President shall serve as a nonvoting, advisory member of the Enterprise Zone Board.

Land Sales and Grants to UEAs: The bill also allows a county or municipal redevelopment commission to sell or grant real property to an Urban Enterprise Association (UEA) without a public bidding process if: (1) the UEA has incorporated as a nonprofit corporation; (2) the property to be conveyed is located entirely within the enterprise zone served by the UEA; and (3) the UEA agrees to develop the property within five years after the conveyance and in a manner consistent with the use of the other properties in the enterprise zone. The bill also specifies that a county or municipal redevelopment commission must decide at a public meeting whether to sell or grant real property to an Urban Enterprise Association.

Qualified Employee Wage Deduction: The bill provides that a person who resides in an enterprise zone and is an employee of an S Corporation located in the enterprise zone is eligible for the Qualified Employee Wage Deduction.

Effective Date: July 1, 2002; January 1, 2003.

Explanation of State Expenditures: *Enterprise Zone Board:* The bill would add a new nonvoting advisory member to the state Enterprise Zone Board. This member would be the president of the Association of Indiana Enterprise Zones or a designee of the president. The bill requires a designee to be the executive director of an enterprise zone designated by the state Enterprise Zone Board, and provides that the designee serve until dismissed by the Association president for just cause or because the designee is no longer the executive director of an enterprise zone. The bill also requires that the Association president make this designation not later than September 1, 2002. Under current statute, a non-legislative member of the state Enterprise Zone Board who also is not a local elected official is entitled to \$50 per day salary per diem, plus

reimbursement for travel and other expenses actually incurred in connection with his/her duties on the Board. The current mileage reimbursement is \$0.345 per mile.

Qualified Employee Wage Deduction: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this change. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: (Revised) *Qualified Employee Wage Deduction:* The bill could potentially reduce Individual Income Tax revenue by about \$360,000 annually beginning in FY 2004.

The bill expands eligibility for the Qualified Employee Wage Deduction (which allows a taxpayer to deduct certain income from his/her Individual Adjusted Gross Income (AGI) Tax liability) to include EZ residents who are employees of "S" corporations. Currently, only EZ residents who are employees of regular corporations and sole proprietorships are eligible for this deduction. The deduction is available to EZ residents who are employed within the EZ. These individuals may deduct the lesser of one-half of income earned within the EZ or \$7,500 from their state taxable income. For each eligible taxpayer who is able to deduct the maximum of \$7,500, there would be a reduction of \$255 in income tax liability. It is estimated that there are currently 1,409 employees of "S" corporations who would qualify for the employee wage deduction. Provided each of these individuals claims the maximum deduction, the bill would reduce AGI Tax revenue by approximately \$360,000.

Since the change to the deduction is effective beginning in tax year 2003, the fiscal impact would begin in FY 2004. Revenue from the Adjusted Gross Income Tax is deposited in the state General Fund.

Explanation of Local Expenditures: *Land Sales and Grants to UEAs:* The bill requires a redevelopment commission to make its decision at a public meeting about whether to sell or grant property to an Urban Enterprise Association (UEA) under the proposed process. The bill requires the commission to publish notice of the time and place of such a meeting and a description of the property. The meeting may be held if the actual transfer of property from the county to the commission has not occurred but has been agreed to by the county. The bill requires a UEA that purchases or receives property under the proposed process to report the terms of the conveyance to the state Enterprise Zone Board within 30 days.

Explanation of Local Revenues: *Land Sales and Grants to UEAs:* The bill would allow a county or municipal redevelopment commission to sell or grant, at no cost, property to an Urban Enterprise Association (UEA), provided the commission obtained title to the property at no charge from the county after failing to be sold at the tax delinquent property sale. Under the bill, the UEA would have to be a not-for-profit corporation to make such an acquisition and the parcel of property would have to be located entirely within the UAE's enterprise zone. In addition, the UAE would have to agree to cause the development of the property within 5 years.

This bill could potentially impact local unit property tax revenue and tax rates. If the property acquired by a UEA under the proposed process is sold for private development, it could be returned to the tax rolls sooner than would have occurred under current law. The potential impact is indeterminable.

Qualified Employee Wage Deduction: Because the proposed change would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties and other local units containing enterprise zones, local redevelopment commissions, urban enterprise associations, counties with a local option income tax.

Information Sources: Crowe Chizek Enterprise Zone study per testimony, House Ways and Means Committee, January 29, 2002.